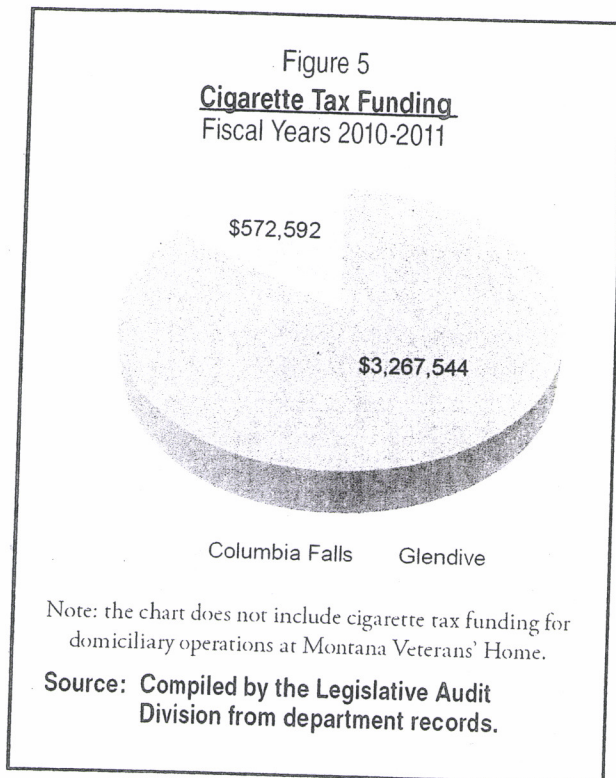


## Review of Cigarette Tax Funding and Cost of Care Calculations

The preceding discussion of charges to residents and revenues for Columbia Falls and Glendive illustrates a significant disparity between the two facilities: Glendive both charges its residents less than Columbia Falls and, at the same time, also collects less revenue on a per resident basis. Some of this difference is attributable to how the contractor chooses to operate Glendive and the fact that its residents are billed at a lower rate than those in Columbia Falls, but differences in how the cigarette tax revenues are distributed between the two facilities also play a significant role.



During fiscal years 2010-2011, a total of about \$4.7 million in state funding was expended for the operation and maintenance of the veterans' homes via the state tax on cigarettes. Of this total, we estimate that about \$865,000 supported domiciliary operations at Columbia Falls. The remainder contributed to the skilled nursing activities at the two homes. The total for skilled nursing was over \$3.2 million for Columbia Falls and just over \$570,000 for Glendive.

Columbia Falls does have a larger patient census than Glendive, but even when adjusting the cigarette tax funding on a per-bed-day basis Columbia Falls received \$51.20 per day while Glendive received \$12.25—a difference of \$38.95 per day. By allocating cigarette tax revenues at a ratio of approximately 4:1 in favor of Columbia Falls, the state provides a subsidy to the cost of care at this facility that is not available to the same degree for residents in Glendive. The Department has provided an amount to Glendive to cover state oversight and major repairs, but has funded those activities and others at Columbia Falls at a higher level. Residents at Glendive are not provided with equal resources through the use of the cigarette tax.

A third state veterans' home is planned to be constructed pending availability of federal funds. This home will be known as the Southwestern Montana Veterans' Home and will be located in Butte. The home will be operated in a manner similar to Glendive, but the allocation of cigarette tax revenue for this home's operation is unclear. State law does not specify how funding is to be allocated to the homes, but the funding is approved through the appropriations process. Given the increasing need for veterans

nursing services and the current distribution of funding between Columbia Falls and Glendive, now may be a good time for the legislature to consider whether allocation of cigarette tax funding between homes should be addressed in statute. The alternative is to continue allocating funding based on executive branch budget proposals through the appropriations process.

#### **RECOMMENDATION #1**

*We recommend the Montana Legislature review the allocation of cigarette tax funding to the state veterans' homes to determine whether distribution between homes should be addressed in statute.*

### **Daily Rate Setting Calculations**

Calculation of the daily rate or per diem charges for state institutions is designed to be a uniform process. Section 53-1-401, MCA, provides definitions and procedures for calculating per diem charges that should be applied to both Columbia Falls and Glendive. During our review of rate adjustment documentation, we identified both veterans' homes calculated daily rates using costs divided by resident load. However, the costs were not calculated according to the methods described in state law. Columbia Falls does not use the full-time equivalent resident load to calculate the per diem rate that is charged to residents of the facility. Instead it calculates the rate using the total facility capacity. Glendive uses the projected facility population for the upcoming year.

The per diem rate charged to home residents may not match the actual full cost of care. In the case of Columbia Falls, the rate charged to residents will be less than the full cost of care. For Glendive, the rate may vary one way or the other from the full cost of care based upon fluctuations in resident population. The calculation performed does not recognize the revenue available for the operation and maintenance of the facility through the state cigarette tax. If the per diem cost rate at Columbia Falls were calculated according to the law, the rate paid by residents could exceed that which is acceptable to residents. Therefore the Department has made a decision to calculate the per diem cost rate using the total facility capacity rather than the full time equivalent resident load from the previous state fiscal year.